Oberweis
Asset Management

INTERNATIONAL SELECT MARKET COMMENTARY

3Q 2023

Portfolio Performance

We are pleased to report solid year-to-date performance for the International Select Strategy, which has returned +8.01% (+7.69% net of fees) vs. +7.08% for the benchmark, the MSCI EAFE Index. During the third quarter, the strategy returned -5.51% (-5.60% net of fees) vs. -4.11% for the benchmark.

The year-to-date performance has added to the strategy's excellent cumulative track record: Since inception on 9/30/2019, the strategy has compounded a very strong cumulative +64.35% (+61.76% net of fees) vs. only +18.86% for the benchmark. As a concentrated, conviction-weighted portfolio, we naturally do not expect it to hug the benchmark and minimize tracking error over the short-term. In fact, our willingness to overweight our best ideas is key to our alpha generation. We are pleased to report that the strategy is delivering on its goal of generating very high cumulative alpha and ranks, by far, as the #1 top-performing strategy in its asset class since inception (Source: eVestment (09/30/2023).[1]

Market Environment Review

After a positive start in July, developed markets weakened over the subsequent two months to finish lower for the quarter. The biggest concern for investors has been the consistent increase in U.S. Treasury yields, with the increase most pronounced at the long end of the curve (maturities longer than five years out), a dynamic also reflected in the UK and Euro area. In the last six months, 10-year U.S. Treasury yields have increased by approximately 150bps and closed the quarter near 16-year highs. Inflation expectations have not been increasing, so real rates, which is to say yields less inflation expectations, have also appreciated materially.

Federal Reserve Chairman Jerome Powell at the September U.S. Fed meeting clearly indicated a bias towards a more restrictive policy and a "higher-for-longer" approach to interest rates. The rise in real rates seems in part a reaction to the resilience of the economy and labor market, along with the magnitude of the Federal government's financing needs. Perhaps counter-intuitively, the increase in rates has occurred while the inflation trend has become more benign.

Supply chain pressures have reversed, and supply has caught up with demand in the U.S. apartment rental market, boding well for the shelter component of CPI. The tightness of the labor market remains a risk to the disinflation narrative; however, wage pressures appear to be moderating. In particular, the increase in immigration has impacted on the low end of the labor market, and wage growth premia enjoyed by job switchers vs stayers has been coming down. The core PCE price index, a measure watched very closely by the Fed, rose 0.14% in August from July. The three month annualized core inflation rate was +2.2%.

Internationally, the softening inflation trends in the U.S. have been mirrored. Euro area core inflation fell to +4.5% year-on-year in the September report, below consensus. However, the macro data has indicated a widening performance gap between the U.S. and Euro Area economies, especially Germany and Italy where manufacturing data has been disappointing. With U.S. rates still elevated vs German rates, and with expectations that the ECB will not hike further beyond the next meeting, the dollar has been strong and European assets broadly underperformed.

[1] Based on data submitted to eVestment as of 10/9/2023. Peer group defined as all EAFE All Cap Equity strategies tracked by eVestment. eVestment provides third party databases, including the institutional investment database from which the presented information was extracted. Over 4,500 firms actively submit data to eVestment. No representation or warranty is made by Oberweis Asset Management, Inc. ("OAM") as to the validity and appropriateness of the eVestment rating. eVestment ratings should not be viewed as representative of the experience of other investors and is no guarantee of future performance. OAM pays a subscription fee for services to eVestment.

AVERAGE ANNUAL TOTAL RETURNS ***(as of September 30, 2023)***					
	QTD	**YTD**	**1-YR**	**3-YR**	**Since Inception***
International Select (gross of fees)	**-5.51%**	**8.01%**	**16.93%**	**-4.54%**	**13.23%**
International Select (net of fees)	**-5.60%**	**7.69%**	**16.47%**	**-4.93%**	**12.78%**
MSCI EAFE	-4.11%	7.08%	25.65%	5.75%	4.41%

Past performance is not necessarily indicative of future results. Performance is historical and includes the reinvestment of dividends and other income. Unusually high returns may not be sustainable. The strategy invests in rapidly growing smaller and medium-sized companies that may offer greater return potential. However, these investments often involve greater risks and volatility. Foreign investments involve greater risks than U.S. investments, including political and economic risks and the risk of currency fluctuations. Net-of-fee composite returns are calculated using the highest model investment advisory fees applicable to portfolios within the composite. Advisory fees are disclosed in Part II of Form ADV.

**The inception date of the Oberweis International Select strategy is 9-30-19. Oberweis Asset Management, Inc. ("OAM") is an independent investment management firm that is not affiliated with any parent organization. The composite returns are comprised of all fully discretionary accounts with a minimum value of $5.0 million. Accounts are dollar-weighted within the composite and reported in U.S. dollars.*

The MSCI EAFE Index is an equity index which captures large and mid-cap representation across 21 Developed Markets countries around the world. excluding the US and Canada. The index is comprehensive, covering approximately 85% of the free float-adjusted market capitalization in each country. It is not possible to invest directly in an index.

Market Environment Review (continued)

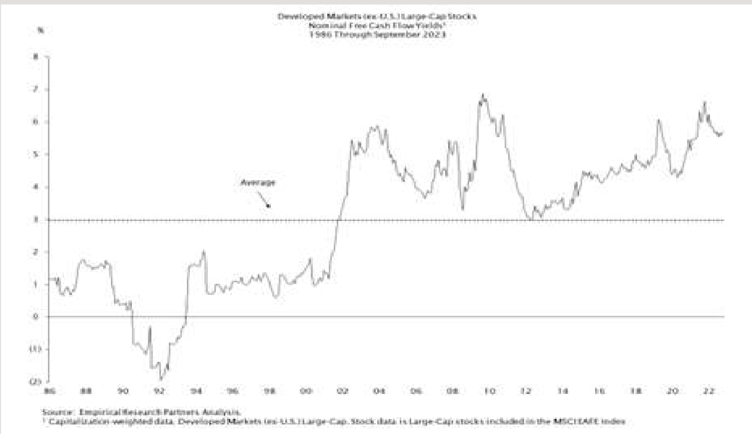
Earnings in the Euro Area have remained resilient, even though higher interest rates have proven more effective at slowing economic activity than in the U.S. In fact, Europe has been the region with the best earnings revisions over the last year with net margins holding up well. That is a good combination for our investment strategy: low investor expectations followed by data that is not as bad as feared. It is much easier to find companies with the potential to beat expectations when expectations are much lower-than-normal. In Japan, a series of corporate governance reforms announced at the beginning of the year by the Tokyo Stock Exchange encourages listed companies to improve capital efficiency. This appears to have been highly impactful, with companies increasing efforts to address some of the long-standing issues that have plagued them in the past. These government reforms likely represent a marked turning point, and are part of a coordinated approach by policy makers to get both foreign investors and Japanese households to increase their exposure to Japanese equities. If successful, the impact on supply and demand would be material.

Outlook

The outlook for the change in the second derivative in real interest rate changes is currently, in our opinion, the most critical factor impacting capital markets. After 22 months of monetary tightening and positive economic surprises, it looks like markets have accepted that the economy is in fact far less rate sensitive than was initially presumed. Thus, the steepening yield curve reflects a belief that the economy is not going to crack under the weight of tighter policy. The increased discount rate has already contributed to near-historically low valuations for non-U.S. equities:

However, this is backward-looking. What matters to forward equity returns is whether rates will increase substantially from here or not relative to investor expectations. Should the rate of change in interest rates changes (i.e. the second derivative) slow down from here, this would, in our experience, have a positive effect on forward equity returns.

Similar to the attractive earnings-based valuation across our investible universe, free cash flow yields in ex-U.S. developed markets remain near historical highs:



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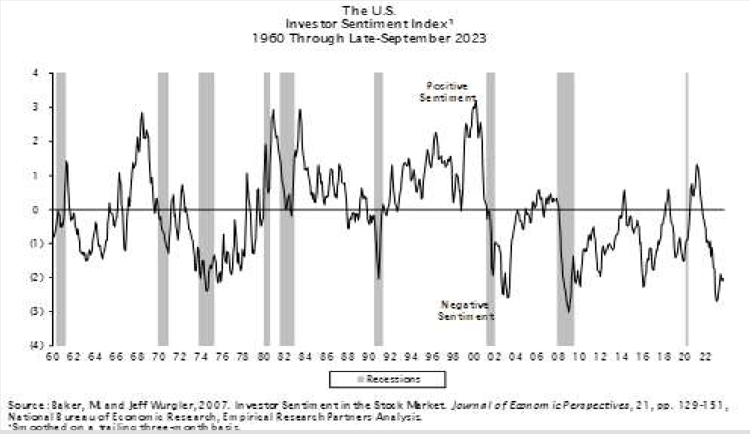
Outlook (continued)

Further, investor sentiment and expectations for forward returns remain among the lowest they have ever been. Counter to common investor behavior, which tends to shy away from deploying new capital when consensus opinion becomes fearful, our experience has shown that attractive valuations and near-trough expectations have generally made a favorable set-up for forward-looking long-term returns.



Our primary focus continues to be investing in strong companies with great underlying fundamentals, balance sheets and cash flows. Our holdings tend to be niche-oriented firms operating in disruptive markets. GDP matters, but it generally is not the main driver of long-term earnings growth for our holdings. In that regard, our portfolio companies had, in aggregate, a solid set of earnings reports with strong underlying fundamentals. We are confident that whether the market goes up or down from here in the short-term, on a relative basis, the underlying fundamentals of our companies will continue to do well.

Portfolio Highlights

At quarter-end, the portfolio was invested in 33 stocks in 12 countries. Our top five country weightings (portfolio weighting vs. the MSCI EAFE Index) at quarter end were Switzerland (18.3% vs. 9.9%), United Kingdom (18.2% vs. 15.3%), Japan (13.0% vs. 22.9%), France (12.4% vs. 12.1%), and Canada (7.9% vs. 0.0%). On a sector basis, the portfolio was overweight consumer discretionary (23.8% vs. 12.1%) and underweight industrials (11.3% vs. 15.9%).

Organization Update

There are no changes to the International team or strategy.

Oberweis Asset Management Investment Philosophy

We believe that investing in innovative companies driving revenue and earnings growth in excess of expectations results in superior investment performance over long periods of time. The entrepreneurial spirit is alive and well at these companies. Many uniquely address the needs of their customers with patented new products and services. Successful investing, however, demands more than finding companies with good growth prospects. It also requires the patience and fortitude of a long-term investor and to hold structural winners through the short-term jitters of the stock market.

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